

Message Text

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SUBJECT: PRICES IN GREECE: SOME IMPROVEMENT, BUT INFLATION
REMAINS A PROBLEM

1. SUMMARY AND COMMENT-GOG HAS DESCRIBED INFLATION, ALONG WITH STAGNATION AND BALANCE OF PAYMENTS SITUATION, AS PRIMARY ECONOMIC PROBLEM FOR 1975. GREAT PROGRESS HAS BEEN MADE IN FIGHTING INFLATION SINCE ITS PEAK IN 1973, BUT THE STUBBORN LOCAL VARIETY LINGERS, AS REFLECTED IN 13.5 PERCENT INCREASE IN AVERAGE CONSUMER PRICE INDEX FOR FIRST FIVE MONTHS OF 1975 OVER THE LEVEL FOR SAME PERIOD IN 1974. FEAR OF REVIVING THE INFLATIONARY SPIRAL HAS CONTRIBUTED TO GOG POLICIES AIMING AT LIMITING GNP REAL GROWTH TO 2-4 PERCENT IN 1975. IN LIGHT OF 7.2 PERCENT RISE IN CONSUMER PRICES BETWEEN DECEMBER 1974 AND MAY 1975, THE GOVERNMENT'S TARGET OF 15 PERCENT PRICE INCREASE THIS YEAR SEEMS NOT UNATTAINABLE, ESPECIALLY SINCE A GOOD PART OF THE PRICE BOOST EARLY THIS YEAR IS ATTRIBUTABLE TO INDIRECT TAX HIKES AND ADMINISTERED PRICES. MUCH WILL DEPEND, HOWEVER, ON THE

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INFLATIONARY IMPACT OF WAGE SETTLEMENTS AND INTERNATIONAL

DEVELOPMENTS, INCLUDING OIL PRICES. ON BALANCE, A PRICE RISE AT THE LOWER END OF A 15-20 PERCENT RANGE APPEARS, FROM THE CURRENT VANTAGE POINT, MOST PROBABLE. END SUMMARY

2. THE GOG HAS EMPHASIZED REPEATEDLY IN POLICY STATEMENTS ITS CONCERN OVER THE PROBLEM OF INFLATION. PM CARAMANLIS AND OTHER LEADERS HAVE LISTED INFLATION AMONG THE NATION'S THREE MOST PRESSING ECONOMIC PROBLEMS AT THE PRESENT TIME (ALONG WITH STAGNATION AND THE BALANCE OF PAYMENTS). FROM DECEMBER 1973 TO DECEMBER 1974, THE CONSUMER PRICE INDEX SHOWED A 13.5 PERCENT INCREASE, A GREAT IMPROVEMENT OVER THE DECEMBER 1972-DECEMBER 1973 FIGURE OF 31 PERCENT. ALTHOUGH GOVERNMENT ECONOMISTS CONSIDER THE RATE STILL UNCOMFORTABLY HIGH, THEIR TARGET FOR 1975 IS PRICE INCREASES OF ROUGHLY 15 PERCENT-A COMPROMISE DICTATED BY THE GOVERNMENT'S PRIMARY SHORT-RUN OBJECTIVE OF RESTORING AT LEAST SOME REAL GROWTH.

3. THE AVERAGE CONSUMER PRICE INDEX FOR THE FIRST FIVE MONTHS OF 1975 REGISTERED A 13.5 PERCENT INCREASE OVER THE SAME PERIOD OF 1974. BETWEEN DECEMBER 1974 AND MAY 1975 THE CPI ROSE 7.2 PERCENT. INCREASES IN INDIRECT TAXES AND GOVERNMENT MONOPOLY ITEM PRICES ARE AFFECTING PRICE LEVELS (THE FINANCE MINISTRY ESTIMATES THEIR EFFECT ON THE 1975 COST OF LIVING AT 5 PERCENT). CHARGES FOR ESSENTIAL SERVICES-SUCH AS ELECTRICITY, COMMUNICATIONS AND TRANSPORTATION-HAVE ALL INCREASED SIGNIFICANTLY SINCE THE BEGINNING OF THE YEAR. BETWEEN DECEMBER 1974 AND MAY 1975, FOR EXAMPLE, THE CONSUMER PRICE INDEX SHOWS A 15 PERCENT INCREASE IN TRANSPORTATION AND COMMUNICATIONS COSTS. FOOD PRICES HAVE RISEN 8 PERCENT FROM DECEMBER 1974 TO MAY 1975, AND WILL PROBABLY CONTINUE TO RISE DUE TO HIKES IN GOVERNMENT-FIXED MINIMUM FARM PRICES.

4. IN RECENT MONTHS WHOLESALE PRICES HAVE INCREASED AT A LOWER RATE THAN RETAIL PRICES, PERHAPS A HOPEFUL SIGN FOR THE CONSUMER. THE WHOLESALE INDEX ROSE A RELATIVELY MODERATE 7.3 PERCENT BETWEEN APRIL 1974 AND APRIL 1975, INCREASING BY 5.4 PERCENT BETWEEN DECEMBER 1974 AND APRIL 1975. (APRIL FIGURES ARE LATEST AVAILABLE).

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5. SEVERAL LARGE QUESTION MARKS CAUSE CONCERN. ONE IS THE IMPACT OF EXOGENOUS FACTORS. IMPORTS AMOUNTED TO \$4.7 BILLION, EQUIVALENT TO 25 PERCENT OF GNP, IN 1974. OBVIOUSLY, THE RATE OF INFLATION IN GREECE'S MAJOR TRADE PARTNERS IS A SIGNIFICANT FACTOR AND ONE OVER WHICH THE GOG HAS NO INFLUENCE. CONTINUED DOUBLE-DIGIT INFLATION IN WESTERN EUROPE WILL LEAVE ITS MARK ON GREECE, AS WOULD ANY PRECIPITOUS INCREASE IN THE PRICE OF OIL. SECOND, THERE

IS ENORMOUS PRESSURE FOR WAGE INCREASES WHICH THE GOVERNMENT HAS DONE LITTLE TO MODERATE. JUMPS OF 30 PERCENT ARE NOT UNCOMMON AND EACH SETTLEMENT BREEDS NEW DEMANDS. THE INFLATION OF THE PAST TWO AND A HALF YEARS HAS UNDOUBTEDLY ERODED THE BUYING POWER OF THE GREEK WORKER, BUT THE ATTEMPT TO CATCH UP IN THIS FASHION IS LIABLE TO BREED A NEW INFLATIONARY CYCLE OF THE COST-PUSH VARIETY. A THIRD ELEMENT OF CONCERN IS THE MONEY SUPPLY, WHICH HAS BEEN ALLOWED TO GROW AT WHAT APPEARS TO BE AN EXCESSIVE RATE, 24 PERCENT BETWEEN MARCH 1974 AND MARCH 1975. GIVEN THE SLACKNESS IN DEMAND, THIS LARGE INCREASE HAS PROBABLY NOT YET HAD AN INFLATIONARY IMPACT, BUT IT HAS CONTRIBUTED TO AN ENVIRONMENT IN WHICH INFLATIONARY FORCES CANNOT BE DISCOUNTED.

6. CONCLUSION-SOME ECONOMISTS, INCLUDING THE OECD SECRETARIAT, REGARD THE GOG FORECAST OF 15 PERCENT AS SLIGHTLY OPTIMISTIC AND WOULD SET THE FIGURE IN THE 20 PERCENT RANGE. THERE IS NO DISAGREEMENT, HOWEVER, ON THE PROBLEMS WHICH CONFRONT GREECE, AS WELL AS MANY OF HER WESTERN TRADE PARTNERS, BY VIRTUE OF STUBBORN INFLATION WHICH IMPOSES SERIOUS RESTRAINTS ON THE GOVERNMENT'S EFFORT TO COMBAT STAGNATION, AND IS CAUSING SOCIAL STRAINS AND INDIVIDUAL HARDSHIP DUE TO THE EROSION OF THE BUYING POWER OF THE DRACHMA.

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